

Budget Brief – DAS Office of State Debt Collection

NUMBER CFGO-07-14

SUMMARY

The Office of State Debt Collection (OSDC) was established in 1995. It is a restricted special revenue fund. The division's primary responsibility is to contract with private vendors to assist in collection of outstanding debt.

This program was an internal service fund (ISF) from FY 1996 to FY 2006. In reality, however, it operated differently than other ISF agencies. Whereas other ISFs provide general services to other state agencies; the OSDC collects past due bills for other agencies, but charges its fees to debtors rather than customer agencies. To recognize the difference, the 2006 Legislature passed S.B. 214 making this program a Restricted Special Revenue Fund.

ISSUES AND RECOMMENDATIONS

What are "Restricted Special Revenue Funds"?

Restricted Special Revenue Funds (RSRFs) are one of twelve major fund types in state government (see UCA 51-5-4). Essentially, RSRFs are funds created by legislation that:

1. Identifies specific revenue sources such as fees, taxes, donations, federal funds, etc.
2. Defines the use of the money for a specific function of government, and
3. Delegates spending authority over the fund's assets to a board, department, or other officials.

Unlike other state fund types, RSRFs are not subject to annual legislative appropriations. However, they are subject to annual legislative review by the relevant appropriations subcommittee. The Legislature may choose to take action based upon its review.

The State Debt Collection Fund is established in UCA 63A-8-301 and consists of any appropriations that may be made to it, fees and interest established by the OSDC, and post-judgment interest collected by the office except post-judgment interest on restitution. The office is required to annually report on the fund balance and its revenues and expenditures and administrative costs.

Figure 1: Administrative Services - Office of State Debt Collection - Budget History

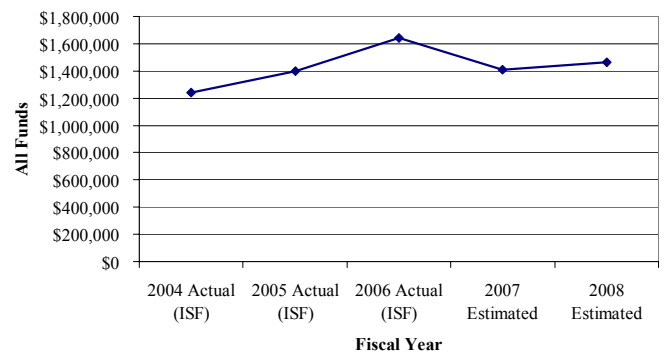


Figure 2: Administrative Services - Office of State Debt Collection - FTE History

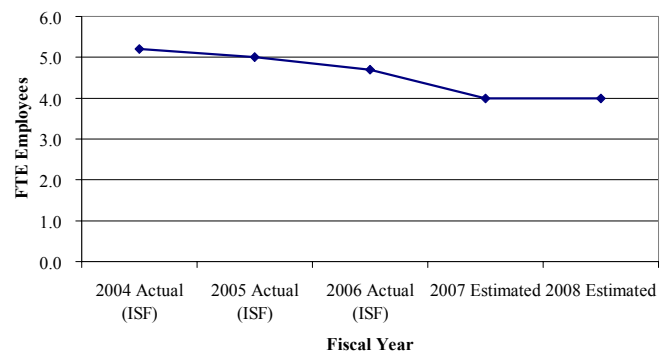
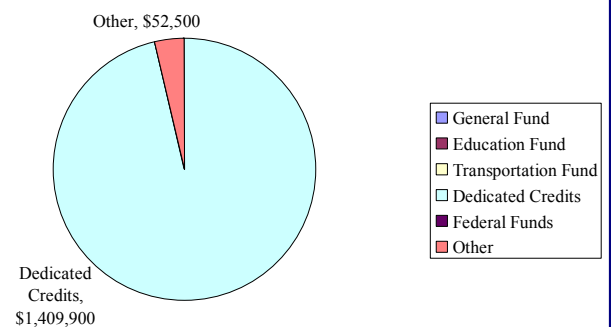


Figure 3: Administrative Services - Office of State Debt Collection - FY 2008 Estimated Funding Mix"



ACCOUNTABILITY DETAIL***Deposits into the General Fund***

Statute requires OSDC to “ensure that monies remaining in the fund at the end of the fiscal year that are not committed [to the office’s statutory mandate] are deposited into the General Fund” (UCA 63A-8-301). This requirement existed when OSDC was an internal service fund and remains today in the restricted special revenue fund. Exactly what constitutes a “commitment” is not defined, making compliance difficult to gauge. Nevertheless, a look at trends is helpful. Here are the actual amounts returned to the General Fund and amounts kept as retained earnings since FY 2002:

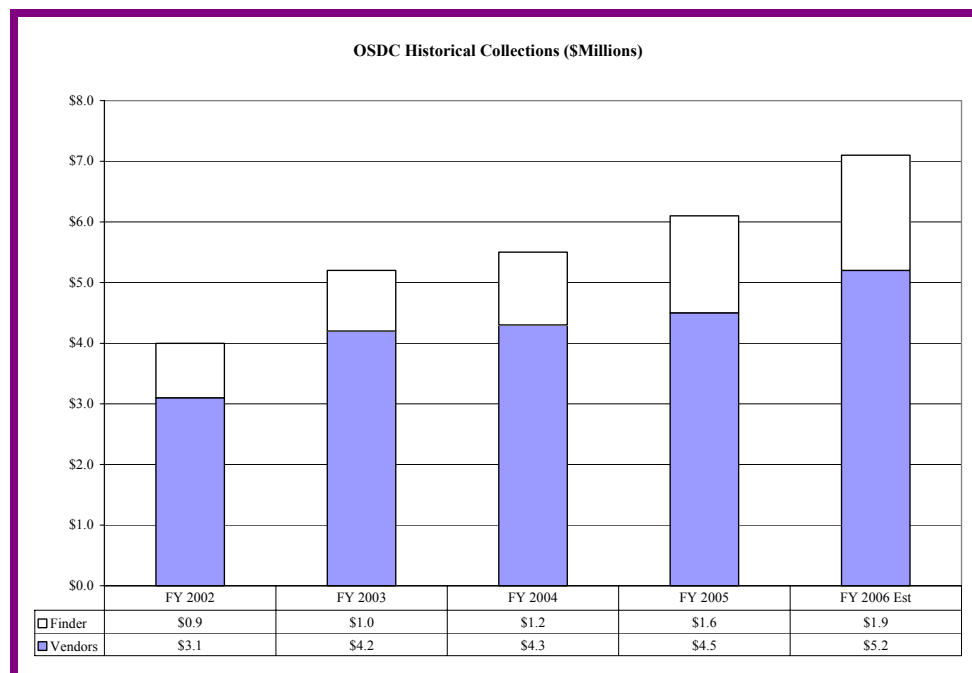
	General Fund Deposits	Retained Earnings Kept
FY 2002	\$350,000	\$639,800
FY 2003	\$667,100	\$206,000
FY 2004	\$50,000	\$236,100
FY 2005	\$50,000	\$399,600
FY 2006	\$0	\$941,600

Note that for FY 2006 the office opted not to transfer any money to the General Fund even though their retained earnings were much higher than usual. Office staff chose to keep enough money in case of a revenue shortfall, yet they had more money than in prior years when they deposited money to the General Fund. OSDC is no longer an ISF, but the standard used by ISFs and allowed by federal auditors is sixty days’ worth of reserves. OSDC’s FY 2006 retained earnings of \$941,600 represents approximately eight months of reserves.

OSDC states that an ISF is allowed to borrow from the General Fund in bad times, whereas a special revenue fund is not. Regardless, the Analyst suggests that maintaining eight months of reserves may not comply with the statutory intent of ensuring “uncommitted monies” are deposited into the General Fund. The Analyst recommends the Legislature and the OSDC come to agreement on an acceptable level of retained earnings.

Historical Collections

The state’s historical collections numbers show the effectiveness of collection practices by the division and its third-party vendors.



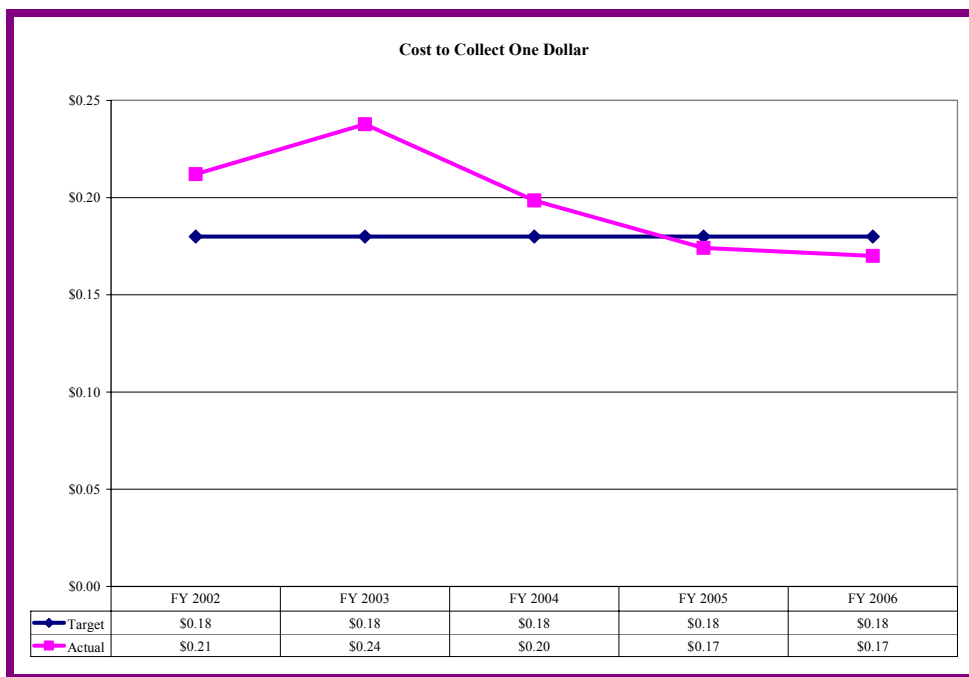
Approximately forty three percent of collections are made by the Tax Commission's private vendors, many of whom are the same vendors used by OSDC. Approximately thirty five percent of collections are made for the Courts. Remaining collections are spread out amongst all state agencies, with the next largest being the Department of Corrections at (five percent) and Labor Commission (four percent).

The OSDC has expressed interest in collecting the Tax Commission's debt, but statute grants the Tax Commission the ability to collect its own debt.

In total OSDC continues to collect more dollars than in previous years. This is the result of improved collection processes. The amount of collections should increase each year, but is influenced by other factors such as the economy and the practices of other state agencies.

Cost to Collect One Dollar

The cost to collect one dollar measures the efficiency of OSDC in collecting receivables for the state. Lower amounts mean the office is more efficient.



OSDC reached its target in FY 2006. This is the result of increasing collections without increasing FTE.

BUDGET DETAIL

No appropriation is necessary for this restricted special revenue fund. The following information is provided to assist the appropriations subcommittee in meeting its requirement to annually review the fund balance, revenues and expenditures of the program.

This program received an appropriation for FY 2007 because the appropriations bill passed prior to the passage of S.B. 214 which made this a special revenue fund effective July 1, 2006.

The office lost one FTE in FY 2007 to the new Department of Technology Services. This employee was reassigned by DTS to another agency, which caused concern by OSDC because the employee was the only person familiar with OSDC's systems. As a result DTS has assigned the employee back to OSDC systems.

BUDGET DETAIL TABLE

Administrative Services - State Debt Collection Fund						
	2003	2004	2005	2006	2007	2008
Sources of Finance	Actual (ISF)	Actual (ISF)	Actual (ISF)	Actual (ISF)	Estimate	Estimate
Dedicated Credits Revenue	387,100	668,300	771,400	866,400	728,900	772,500
Licenses/Fees	166,700	21,800	9,200	4,600	9,700	9,700
Interest Income	692,300	550,900	611,500	756,300	627,700	627,700
Other Financing Sources	(1,800)	(800)	7,500	15,000	40,700	52,500
Total	\$1,244,300	\$1,240,200	\$1,399,600	\$1,642,300	\$1,407,000	\$1,462,400
Categories of Expenditure						
Personal Services	320,800	339,400	353,100	328,200	298,300	308,200
In-State Travel	100	200	200		3,500	3,500
Current Expense	252,500	378,900	373,600	315,500	578,900	594,800
DP Current Expense	15,700	9,800	20,000	25,800	34,900	34,900
Other Charges/Pass Thru	421,900	431,700	439,200	430,900	491,400	521,000
Operating Transfers	667,100	50,000	50,000			
Total	\$1,678,100	\$1,210,000	\$1,236,100	\$1,100,400	\$1,407,000	\$1,462,400
Profit/(Loss)	(\$433,800)	\$30,200	\$163,500	\$541,900	\$0	\$0
Other Data						
FTE	4.9	5.2	5.0	4.7	4.0	4.0
Retained Earnings	206,000	236,100	399,600	941,600	941,600	941,600

FEES

In accordance with UCA 63-38-3.2, the following fees are charged by the Office of State Debt Collection:

	FY 2007 Current	FY 2008 Proposed	Difference	FY 2008 # Units	Revenue Change
Post Judgment Interest: Rate established by federal government on January 1 each year					
Collection Penalty	5.0%	5.0%			
Administrative Collection Fee	14.0%	14.0%			
Collection Interest: Per 63A-8-201(4)(g), on July 1 of the new fiscal year, a rate not to exceed Prime plus	2.0%	2.0%			